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Message Text

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CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 NSC-10 SS-14

STR-08 CEA-02 L-03 H-02 PA-03 PRS-01 USIA-12 RSR-01

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R 210815 Z MAR 73
FM AMEMBASSY BERN
TO SECSTATE WASHDC 7436
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA
USMISSION OECD PARIS
USMISSION EC BRUSSELS
AMCONSUL ZURICH UNN

C O N F I D E N T I A L SECTION 1 OF 2 BERN 1135

PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: GDS
TAGS: EFIN, SZ
SUBJ: STOPPER, PRESIDENT OF SWISS NATIONAL BANK, ON INTERNATIONAL MONETARY SITUATION

BEGIN SUMMARY. DR. STOPPER IS CONCERNED THAT NO MORE WAS DONE AT LAST FRIDAY' S G-10 MEETING, REGARDS THE EC FLOAT AND OTHER RECENT MONETARY ARRANGEMENTS AS EXPEDIENTS, AND HOPES THAT COUNTRIES WILL USE TIME GAINED TO PUSH AHEAD ON REFORM OF INTERNATIONAL
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MONETARY SYSTEM. HE DEFENDED SWISS NONPARTICIPATION IN EC FLOAT ON VARIETY OF GROUNDS, INTER ALIA, THAT STRONG FRANC WOULD OVER-BURDEN EC SCHEME. HE EXPRESSED CONCERN OVER DECISION TO RELEASE US CONTROLS ON CAPITAL OUTFLOWS BY END OF 1974 AT LATEST AND FEARED BACKLASH AGAINST US DIRECT INVESTMENT ABROAD. RESTORATION OF CONFIDENCE IN US BALANCE OF PAYMENTS IS ESSENTIAL TO INTERNATIONAL MONETARY STABILITY, AND STOPPER SAID HE IS BEGINNING TO DOUBT THAT US EXTERNAL ECONOMIC STRENGTH IS CORRECTLY ASSESSED. HE REGARDS MARKET WEAKNESS OF DOLLAR AS TEMPORARY AND, IN FACT, SUSPECTS DOLLAR IS ALREADY UNDERVALUED. END SUMMARY.

1. IN LENGTHY CONVERSATION AT AMBASSADOR' S LUNCHEON ON MARCH 19, DR. EDWIN STOPPER, PRESIDENT OF SWISS NATIONAL BANK, EXPRESSED CONCERN THAT NO MORE HAD BEEN DONE AT LAST FRIDAY' S G-10 MEETING. HE TERMED EC FLOAT AND OTHER ARRANGEMENTS MADE RECENTLY " EXPED-IENTS" WHICH BUY TIME BUT WHICH HE FEARS WILL BREAK DOWN UNDER RENEWED CURRENCY ATTACKS. AS HE IS AN " OPTIMIST", HE EXPRESSED HOPE THAT MAJOR FINANCIAL COUNTRIES WILL USE THE TIME GAINED WISELY AND GET ON WITH TALKS ON INTERNATIONAL MONETARY REFORM. HAPPILY MONETARY CRISIS DID NOT COINCIDE WITH WIDESPREAD RECES-SION, OTHERWISE EVEN MORE NATIONALISTIC MEASURES WOULD HAVE BEEN APPLIED. NUMEROUS NATIONAL RESTRICTIONS ON CAPITAL FLOWS MASK EFFECT OF RECENT PARITY CHANGES TO SUCH AN EXTENT THAT DR. STOPPER DOUBTS THAT BENEFITS TO INTERNATIONAL MONETARY SYSTEM ARE ALL THAT TANGIBLE.

2. STOPPER SPOKE AT GREAT LENGTH ON REASONS WHY SWITZERLAND COULD NOT PARTICIPATE IN EC FLOAT. WITHOUT ELABORATING, HE SAID A " VARIETY OF TECHNICAL FACTORS" PREVENT SWISS PARTICIPATION IN EC FLOAT. MOREOVER, HE ASSERTED THAT A FLOAT ENCOMPASSING BOTH STRONG SWISS FRANC AND WEAK SCANDINAVIAN CURRENCIES WOULD BE SUBJECT TO EVEN GREATER STRAINS THAN ARE PLACED ON EC FLOAT AS PRESENTLY CONSTITUTED, AND THAT EC FLOAT HAS GREATER CHANCES OF SUCCEEDING BY VIRTUE OF SWITZERLAND' S NONPARTICIPATION. IN ANY EVENT, DR. STOPPER EXPRESSED LACK OF UNDERSTANDING JUST HOW EC FLOAT WILL BE ADMINISTERED.

3. DR. STOPPER SAID EC FLOAT WILL BE " VERY DIRTY," SUBJECT TO EVEN MORE INTERFERENCE THAN FLOAT OF SWISS FRANC. HE SAID THAT THE ONLY " CLEAN FLOATER" IS US DOLLAR AND NOTED THAT US GOVERN-MENT PLANS TO ERADICATE BLEMISHES TO A TOTALLY PURE FLOAT BY END OF 1974 AT LATEST.
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4. IN DR. STOPPER' S VIEW, CRITICAL PROBLEM CONTINUES TO BE FLIGHT FROM US DOLLAR. HE RECOGNIZED THAT US GOVERNMENT CANNOT CONTROL NONRESIDENT MOVEMENT OUT OF DOLLAR, BUT HE QUESTIONED WHETHER IT WAS RIGHT FOR US GOVERNMENT TO RELEASE CONTROLS ON RESIDENT TRANSFERS WHILE INTERNATIONAL MONETARY UNCERTAINTY PERSISTS. FOR US GOVERNMENT PREMATURELY TO RELEASE ITS CONTROLS ON CAPITAL OUTFLOWS LENDS SUPPORT TO ARGUMENT THAT US IS INDIFFERENT TO EFFECT ITS ACTIONS HAVE ON OTHER COUNTRIES. MOREOVER, AS LONG AS DOLLAR IS PROGRESSIVELY DEBASED BY MARKET, ARGUMENT CAN BE MADE THAT US INDUSTRY HAS FINANCIAL ADVANTAGE IN BUYING UP FOREIGN INDUSTRY. DR. STOPPER FEARS EVENTUAL BACKLASH WHICH MIGHT TAKE FORM OF RESTRICTIONS ON US INVESTMENT ABROAD.

5. DR. STOPPER SAID RESTORATION OF CONFIDENCE IN US BALANCE OF PAYMENTS IS ESSENTIAL TO ACHIEVEMENT OF INTERNATIONAL MONETARY STABILITY. HE IS COMING TO VIEW THAT CONCENTRATION OF INTEREST ON US TRADE ACCOUNT PROVIDES AN UNDULY PESSIMISTIC BIAS TO AN ASSESSMENT OF US ECONOMIC CONDITIONS ON EXTERNAL ACCOUNT. THIS APPROACH, FOR EXAMPLE, IGNORES ANNUAL INCREASE WORTH OF US DIRECT INVESTMENT ABROAD. AS DR. STOPPER PUT IT, " US IS EXCEEDINGLY RICH UNCLE WHO HAS GOTTEN HIMSELF TEMPORARILY ILLIQUID AND HAS SET HIS NEPHEWS TO WONDERING HOW LONG THEY SHOULD ACCEPT THE OLD GENTLEMAN' S IOU' S."

6. DR. STOPPER SAID HE REGARDS MARKET WEAKNESS OF US DOLLAR AS TEMPORARY. IN LIGHT OF STRENGTH OF US ECONOMY AND TRENDS IN INFLATION IN US AND ABROAD, HE SUSPECTS THAT THE DOLLAR ALREADY IS AN UNDERVALUED CURRENCY. HE IS SURE THAT THE MARKET HAS OVER-VALUED THE SWISS FRANC AND THAT COUNTER ADJUSTMENTS OF PARITIES

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WILL BE REQUIRED IN FORESEEABLE FUTURE.

7. IF EC FLOAT FAILS, AND DR. STOPPER INDICATED STRONG DOUBTS THAT IT WILL STAND UP UNDER SPECULATIVE PRESSURE, HE IS NOT AT ALL SURE WHAT ALTERNATIVE REMEDIES MIGHT BE APPLIED. PRIVATELY FRENCH MONETARY OFFICIALS WILL SAY THAT THERE ARE FLAWS IN SPLIT MARKET AND CARLI HAD TOLD HIM AT PARIS LAST WEEK THAT SPLIT LIRA MARKET HAD NOT WORKED TOO WELL. STOPPER RULED OUT SPLIT MARKET FOR SWISS FRANC AS ADMINISTRATIVELY NOT FEASIBLE.

8. COMMENT. AMBASSADOR AND ECONCOUNS SPOKE ON BASIS OF TREASURY
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SECRETARY SCHULTZ' MARCH 16 PRESS COMMENTS AND RECENT GUIDANCE, BUT FOUND DR. STOPPER HARD TO DISABUSE OF HIS CONCERNS. HE DISPLAYS EVIDENCE OF RECENT STRAIN AND GIVES IMPRESSION THAT HE HAS NOT FULLY RECOVERED FROM LAST FALL' S EXTENDED ILLNESS.
DAVIS

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